

July 3, 2007

The Honorable Steve Cohen
United States House of Representatives
Washington, DC 20515

Dear Congressman Cohen:

I am writing to you on behalf of the Tennessee Bankers Association to let you know that we strongly support the "Patent Reform Act of 2007" (S. 1145/HR 1908), which could be marked up by the Judiciary Committee in July. We urge you to support this important legislation.

Banks are threatened by a large and growing number of dubious claims of patent infringement. In 1998, the Supreme Court decided a pivotal case, *State Street Bank & Trust vs. Signature Financial Group*, by ruling that "business method patents" are patentable. This opened the door for the creation of patent-holding companies or "patent trolls" that merely hold patents and demand licenses instead of using those patents to create real products or services.

Last year, one of these companies filed suit in the U.S. District Court for the Eastern District of Texas alleging that 60 banks, bank holding companies, providers of check image-exchange services, and other technology vendors are infringing on several patents that the company acquired. The patents cover technologies used for the electronic transmission of payment information from banks to clearing houses. This includes digital check imaging systems and automated clearing house transactions, such as the accounts-receivable process used to convert paper checks into automated clearing house (ACH) files.

One of the problems facing banks is that current patent law provides little opportunity, outside of litigation, to challenge a patent once it has been awarded. Once granted, a patent provides essentially a monopoly to the holder for the use of the product or service covered by the patent. Banks are being forced to settle infringement claims by paying enormous licensing fees rather than challenging the validity of the patent in court. This is because those that "intentionally" infringe on a patent are subject to treble damage awards, and the standard for this is very broad. Also, patent holders frequently "forum-shop" and file infringement cases in friendly jurisdictions, like Marshall, Texas, which is known for siding with plaintiffs and handing over large judgments.

It is no wonder that most banks choose to settle rather than fighting things out in court. The result – the banking industry has paid millions of dollars to settle the cases through “licensing” fees and there is more to come as patent trolls continue to bring infringement suits against financial institutions.

S. 1145 is bipartisan legislation that is strongly supported by the financial services industry because it will put in place critically important reforms to patent law that directly impact our business operations. In particular, S. 1145:

- Provides a way to challenge the validity of a patent without going to court by bringing an administrative action before the Patent and Trademark Office (PTO) during a one-year period immediately after it is granted, and again prior to litigation (a “second window”);
- Clarifies that treble damages can only be imposed when a defendant intentionally infringes upon the patent;
- Limits damages to the separate value of the component at issue in the patent infringement case and not the combined value of the product (particularly important in complex Check 21 imaging systems which could have literally hundreds if not thousands of patented and unpatented components); and,
- Makes it harder for plaintiffs to “forum shop” for a more favorable court by ensuring that patent disputes are resolved in courts that have a reasonable connection to the underlying claim.

There are other important reforms included in S. 1145 as introduced that we support. This includes the expansion of “prior use”, which provides a defense against an infringement action in cases where a company has been commercially using the technology prior to a patent being granted to, and an infringement action brought by another party.

We urge you to support S. 1145 in the Judiciary Committee and to oppose proposed changes that undermine these important reforms to patent law.

Sincerely,

Timothy L. Amos
Senior Vice President and General Counsel